



Committee On Finance

Max Baucus, Chairman

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**Statement of Senate Finance Committee
Chairman Max Baucus
Wednesday, February 13, 2002**

We are here today to consider tax incentives for energy conservation and production. It may be useful to remind people why we need these incentives. Think back about a year. We faced rolling blackouts in California. High consumer prices for gasoline and natural gas. Industrial price spikes that disrupted the entire economy of the West. The effects were widespread and severe. It was a national emergency. The situation is somewhat better now. The emergency has abated. But our responsibility has not. If we want to avoid the cycle of repeated energy emergencies, we have take responsible steps now, before the problems return. That's what brings us here today.

Tax incentives can help us achieve energy independence. They can help us conserve, develop alternative sources, and increase production from conventional sources. So it makes good sense for this committee to develop a package of tax incentives, to complement the work of the leaders of the Energy and Natural Resources Committee. In developing a package, I suggest three principles.

The first principle is balance. We should strike a balance between conservation and production. There's no magic percentage, but we've tried to strike a balance of about fifty-fifty. Half of the incentives are for conservation and renewables. The other half are for traditional fuels like coal and oil.

The second principle is technological innovation. We should reward the most advanced technology, and continue to push technology as far and as fast as we can.

The third principle is responsibility. There's no free lunch. We must fit our energy tax incentives into a realistic budget.

With that background, let me briefly describe the key provisions of the Chairman's mark,

which were developed with the full participation of Senator Grassley and all members of the committee.

We extend the wind and biomass credit for an additional five years, and make geothermal energy eligible as a renewable resource. We create new incentives for the production and purchase of alternative vehicles. These are the vehicles of the future. They're powered by alternative fuel, by fuel cells, and by electric batteries. In the near term, we have hybrids, which run partly on electricity and partly on gasoline.

_____ We also create incentives for the construction of energy efficient homes and commercial buildings. For things like this smart meter, which allows people to save energy in their homes. We create incentives for clean coal. If you retrofit to use currently available clean coal technology, you're eligible for a production tax credit. If you use advanced technology, you're eligible for both an investment credit and a production credit. We create a new credit for oil and gas production from marginal wells, and a tax break for geological and geophysical expenditures. We Also address electric utility restructuring. This is a very important issue for investor owned utilities, municipal utilities, and cooperatives. But there is a lot of uncertainty. I've mentioned the rolling blackouts in California. Many other states also have been affected. In my own state of Montana, the legislature has had to delay the implementation of a law calling for retail choice, because the state does not yet have a competitive market in place. There is similar uncertainty in other states and nationwide. Here's the bottom line. We don't yet know what a restructured electric industry will look like. In light of this, the mark calls for Treasury to report back to us by the end of the year on restructuring and the tax issues it raises. The study will help us make the right decisions to address future issues raised by restructuring.

At the same time, there are some current problems we know we have to address. The mark does so, with respect to nuclear decommissioning funds and the treatment of cooperatives.

Finally, we all recognize the enormous potential for development on Indian tribal lands. Therefore, I have included an extension of two provisions in the Tax code that give businesses an incentive to invest on tribal lands. Pulling all this together, we have a package of tax incentives that are important in their own right and that will complement the broader energy bill on the Senate floor. Don't get me wrong. This bill is not a panacea. It's a work in progress. It's a step. But it's a good step, in the right direction. Finally, I'd like to acknowledge all of those who helped write this mark. The President's budget called for tax incentives for renewable resources, residential solar systems, alternative fuel vehicles, and combined heat and power systems. These are all included. Our Committee Members have also made a very important contribution to this bill. Especially our ranking member, Senator Grassley, who has worked hard to make this a balanced, bipartisan bill. Senator Hatch and others were the principal authors of the alternative fuels provisions. Senator Rockefeller was the principal author of the clean coal provisions. Other Members were responsible for other important provisions. I want to pay special tribute to Senators Bingaman and Murkowski. We are lucky to have them on our Committee, and we all

have benefitted from their expertise and dedication. I also thank Senator Daschle, for bringing energy legislation to the Senate floor and working with us to make sure that tax provisions are included. As you can tell, this has been a cooperative effort. The work of every single member is reflected in the mark, and that will result in a good tax bill that will serve our country well.